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SUBJECT: HM TREASURY OFFICIALS ON TEC AND DOHA

LONDON 00001506 001.2 OF 002

¶1. (SBU) SUMMARY: HM Treasury officials worry the French may use their EU Presidency to slow Common Agricultural Policy (CAP) reform and may even try to use labor clauses in free trade agreements to impose some of their own labor market rigidities. They are also concerned by signs of protectionist rhetoric on the U.S. campaign trail. They see Germany as an important partner in delivering EU support for a Doha agreement. They are preparing for an interagency discussion of the post-Doha trade agenda, and wonder whether a smaller group might achieve more and whether some of the Transatlantic Economic Council goals could be achieved in this format. END SUMMARY.

¶2. (SBU) Acting Econ Minister and Counselors met with HM Treasury officials, Paul Devenish, Head of Global Trade Policy and Joanne Madders, EU External Openness, (please protect) May 23 to review UK views on food prices, the TEC, Doha, and related concerns.

PM Wants Doha

¶3. (SBU) Devenish said that Doha Development Agenda WTO trade negotiations (DDA), along with the Lisbon EU treaty, is a top priority for the Prime Minister. Devenish said Foreign Secretary David Miliband's comments in a speech in Washington earlier that week warning U.S. political figures about protectionism reflected a "twinge of concern" in HMG about rhetoric coming from the U.S. Presidential campaign.

¶4. (SBU) Devenish asked about USG views on recent reports that China would be permitted extra time to adopt tariff reductions as part of the DDA agreement. He noted that some developing countries, such as Argentina, had raised objections. Politically, it is easier to change subsidies than tariffs, he argued, so getting the tariffs right was crucial.

¶5. (SBU) Devenish said he thought it unlikely that France would block a DDA trade agreement if one were reached in Geneva. Although the French complain that EU Commissioner Mandelson is stepping beyond his mandate, Devenish said he did not think he was "by much". Should the UK get the sense that the French would block a deal, however, the UK would work with Germany to prevent it from happening, even if the UK had to make some unspecified concession in another field to Germany to ensure its support. Germany is a swing vote on the DDA, he said.

France Inflexible, So Others Should Be Too

¶6. (SBU) Devenish saw growing EU interest in adding labor and environmental clauses to trade agreements, as the U.S. has done. Devenish said that France may try to use free trade agreements with third countries to add these clauses, if it is not successful in other approaches, such as adding a tariff on goods coming from

countries without binding targets on greenhouse gas emissions. France might also seek to impose some of its own labor market rigidities on its trading partners, because it has not succeeded in making its own market more flexible.

How to Preserve the TEC?

¶17. (SBU) Madders judged the recently concluded meeting of the Transatlantic Economic Council (TEC) as positive overall. HMG was optimistic about maintaining momentum. She worried how successful the next session in October will be, however, coming less than a month before the U.S. elections. She asked if by then the U.S. will be hampered in offering contributions to move the TEC process forward.

¶18. (SBU) Madders agreed that solving poultry was a crucial test for the TEC, the "poster chicken" for the process. HMG's position has always been purely based on science. If and when the tests conclusively show the U.S. process is safe, the UK supports free entry. Devenish conceded, however, that European protectionism is part of the problem. EMIN stressed importance of solving poultry issue, both in its own right and as a demonstration that the TEC can resolve longstanding disputes.

Solve TEC through an OECD Agreement?

¶19. (SBU) Devenish also explained that the HMG is examining what the options are for furthering world trade and reducing trade barriers post-Doha. Negotiations among all members of the WTO are burdensome; countries have varying degrees of interest in opening up their markets. How can those who are willing to do more get together? Is there a way for the U.S. and the EU, perhaps with the OECD, or just certain partners, like Canada, to set out some areas to reduce trade barriers which could then be expanded to include

LONDON 00001506 002.2 OF 002

others? Is the TEC a way to make progress in this field? He asked whether the USG is considering the next step beyond Doha, whether it succeeds or not, in terms of further trade liberalization.

¶110. (SBU) On food prices, Devenish pointed to the Chancellor's letter to the EU on the CAP, calling for substantial revisions. He said other EU members, mostly the northern Europeans, favored new numbers but wondered how even-handed a President France would be on this issue. He noted that the UK does not participate in Pillar I of the EU Common Agricultural Policy (CAP) which pays subsidies to farmers, but must contribute to it all the same. The UK does participate in Pillar II, which supports environmental projects. As part of the EU global budget review this year, the UK has pushed for a review of CAP.

TUTTLE